Future RIK Program

- **Bill based on deliveries**

  ✓ *Issues to resolve:*

  ➢ *What month to bill (month following the month of production or one month later)?*

  ❖ See the discussion on imbalances later.

  ❖ **Questions on 1) what to do if production declines on a lease - can additional production be given to the refiner, and 2) if more volume becomes available in the Gulf (i.e., after the SPR project), can we give additional volumes to refiners.**

  ❖ Initial thoughts were that we could maintain a volume form of consistency and add additional leases as production declines. **Lucy Q. want us to research this, see what problems occurred in the past and try to figure out ways to work with OMM to prevent these problems.** She does not think we need to add leases as volume declines. Everyone agreed that a new sale would be required is more Gulf volume becomes available, such as after the SPR project.

  ➢ *No bill, just have refiners report and pay*

  ❖ Refiners have no problem with this; they will know their deliveries and prices. RMP can then verify deliveries to entitlements reported on the OGOR's and verify prices to contract terms.

- **Title passes at the lease/FMP, but delivery at lease or market center**

  ✓ *Issues to resolve:*

  ➢ *Valuation - how to value at lease/FMP*

  ❖ *Answer could be market center price less estimate of transportation costs. Estimated cost could be from consultant.*

- From refiner's standpoint, title passing at the lease much more difficult.
- From RVD standpoint, no way to get good valuation figures at the lease.
- **Conclusion – delivery at market center.**
  - **Gravity bank issue. Refiners will pay at delivered quality (i.e., LLS at St. James is 37-38 degrees). Operators will have to adjust (+/-) for the difference between production quality at the royalty measurement point and this delivery quality (when the royalty settlement point is upstream or the same point as the quality bank)**

- **Price Certainty**

  - *Issues to resolve:*
    - *Use the same mechanism as in current contracts but tie down deductions more.*
      - Refiners will break down any deduction to all its components (Dennis Cernosek will draft).

- **Lease Selection**

  - *Issues to resolve:*
    - *Leases by area*
    - *Known pipeline systems*
    - *Transportation costs*
      - Refiners are okay with areas under review (Eugene Island, South Marsh Island, Ship Shoal, Vermillion, Garden Banks, Green Canyon, and Grand Isle. They also would like more than the 70,000 - 80,000 barrels per day being discussed (one because they could use more volume, and two because they believe more small refiners will enter the program).
      - Bundle leases by grade of oil and put bundles in the lottery.

- **Imbalances**

  - ✓ *Issues to resolve:*
    - ➢ *Interest due to/from operators*
      - ➢ **Decision was that interest would be charged or paid.**
    - ➢ *Penalties for under-deliveries*
    - ➢ *When to value*
    - ➢ *Right to refuse delivery*
      - ❖ We discussed two options:

Option 1 has deliveries starting immediately on the new contract date, an imbalance situation for the first two months of the contract that is not resolved until the end of the contract, and no other imbalance situations. Pricing is based on the month of delivery.

Month	Delivery	Entitlement
Jan '00	1000 based on 12/99 nomination	900
Feb '00	1000 based on 01/00 nomination	800
Mar '00	900 based on actual 01/00	950
Apr '00	800 based on actual 02/00	1000
May '00	950 based on actual 03/00	650
June '00	1000 based on actual 04/00	720
Jul '03	650 based on actual 05/03	630
Aug '03	720 based on actual 06/03	720
Sep '03	630 based on actual 07/03	850
Oct '03 end of contract	720 based on actual 08/03	900

Since delivery is based on actual production for two months prior, very little, if any, imbalance situations occur. The only imbalance is for the first two months of contract and this is only resolved at the end of the contract when Jan and Feb '00 deliveries are compared to Sep and Oct '03 entitlements. In the case above, refiners are over-delivered by 150 barrels in Jan '00 and 100 barrels in Feb '00. This is corrected by a refund/credit to the operators for the value of those barrels at the end of the contract (Oct '03 prices). **This option was favored by Mike Miller and Lucy Q.**

Option 2 delays delivery for two months so that no imbalance situation occurs. The final delivery is two months after the contract terminates.

Month	Delivery	Entitlement
Jan '00	0	900
Feb '00	0	800
Mar '00	900 based on actual 01/00	950
Apr '00	800 based on actual 02/00	1000
May '00	950 based on actual 03/00	650
Jun '00	1000 based on actual 04/00	720
Jul '03	650 based on actual 05/03	630
Aug '03	720 based on actual 06/03	720
Sep '03	630 based on actual 07/03	850
Oct '03 end of contract	720 based on actual 08/03	900
Nov '03	850 based on actual 09/03	Reported in value
Dec '03	900 based on actual 10/03	Reported in value

Since delivery is based on actual production for two months prior, very little, if any, imbalance situations occur. Payments from refiners are delayed two months at the start of the contract and the final deliveries and payments are two months after the end of the contract.

Both options - we need to think about time value of money implications. **Decision - pay or charge interest.**

- **Administrative Fees**

- ✓ *Issues to resolve:*
  - ➢ *Per barrel*
  - ➢ *Per value of deliveries*
  - ➢ *Per lease*
  - ➢ *$20,000 up front cost*
    - ❖ Refiners support per barrel price. RMP would calculate RIK section costs at the beginning of each Fiscal Year (NRS). That cost would be divided by the prior years delivered volumes (for the first year, it would be the estimate of volume to be delivered based on the RIK sale volumes). This price per barrel would be paid each month on the volume of deliveries that month. Note: this can result in RMP collecting more or less that the NRS cost of the RIK section.

Until the regulations are changed, we must use leases in this calculation. Also, IG believes we should be charging full cost to refiners, not just the active portion of RIK costs (Mike disagrees).

- Sureties

- ✓ *Issues to resolve:*
  - ➢ *Timeframe*
  - ➢ *90 days*
    - ❖ Refiners are okay with 90-day sureties. They are leaving it up to us to protect the Governments interest. Rod Nelson stated that the cost of the surety is anywhere from $.05 to $.25 per barrel.

Question - after a long-term relation, can you waive surety requirement. Also, does RSFA eliminate the need for surety in any of the small refiner companies?

- **Who Qualifies**

- ✓ *Issues to resolve:*
  - ➢ *Refinery capacity*
  - ➢ *Number of employees*

- Giant asked if RMP would support a waiver request to SBA from Giant. Since their service station segment employees many people, they will not qualify for the next sale unless a waiver is given. Bob Prael stated that the logic is there to support a waiver since the refinery capacity is small, and that we will run this by Lucy Q.

SBA message to Giant indicated that agency needs to ask SBA for a change, not the small business. Bob called SBA to clarify. SBA says there is no waiver to size requirements, but the agency can use different size requirement standards.

- <u>Sale Procedures</u>

  ✓ *Issues to resolve:*
  - *Lottery*
  - *Lease selection (lottery #1 - 8 and then 8 - 1)*
    - Proposal was made to conduct sale by bundling volumes according to grade of crude oil, giving everyone an equal chance at these volumes, and then for any volumes not taken in the 1^{st} round, conduct a 2^{nd} round reallocating volumes left over from the 1^{st} round to all refiners.
    - <u>Most liquid grades of oil</u> are 1) LLS, 2) HLS, 3) BS, 4) EI, and 5) deep stuff such as Mars and Posidon.

- <u>Miscellaneous</u>

Next steps:

1) Make sure transportation issue not a factor and therefore we can have deliveries at the market center.

   I have heard that Mr. Rosenbusch has state that we should continue to do things the way we have been doing them.

2) Get the list of leases together.

3) RVD and the refiners work on the pricing formula.

   After the meeting, Dave D. called to say that RVD felt the best way to proceed on pricing was to have a competitive bidding from small refiners. The base price will be the x ———————— ——— (1 the factor subject to the bid.

   Lucy wants this researched more.

4) Decisions to make

   . Supporting Giant's waiver request to SBA.

   . OMB question on information collection (leases by operator with oil type, market center, etc.). Dennis Jones says we can handle as follows:

   . Emergency information collection authority

   . See if questions in Determination of Need can be seen as covering new questions. If so, no need for new information collection authority

   . Meet with industry or just present lease schedule as information already provided by industry and asking for industry comments, problems, etc. In this case, no need for an information collection authority.

Month	Volume	Value	Admin Fee.	Total Value	Total Revenue*	% RIK	# Contract	# Leases
					*Includes Federal oil only			
Onshore:								
Oct-98	0.00	0.00	0.00	0.00			0	0
Nov-98	0.00	0.00	0.00	0.00			0	0
Dec-98	0.00	0.00	0.00	0.00			0	0
Subtotal	0.00	0.00	0.00	0.00		#DIV/0!		
Offshore:								
Oct-98	1,189,097.93	12,724,595.27	26,391.40	12,750,986.67			6	149
Nov-98	1,041,024.27	12,883,441.00	28,087.99	12,911,528.99			6	149
Dec-98	983,857.96	12,204,822.78	29,596.07	12,234,418.85			6	147
Subtotal	3,213,980.16	37,812,859.05	84,075.46	37,896,934.51		#DIV/0!		
1st QTR	**3,213,980.16**	**37,812,859.05**	**84,075.46**	**37,896,934.51**	**0**	**#DIV/0!**		
Onshore:								
Jan-99	0.00	0.00	0.00	0.00			0	0
Feb-99	0.00	0.00	0.00	0.00			0	0
Mar-99	0.00	0.00	0.00	0.00			0	0
Subtotal	0.00	0.00	0.00	0.00				
Offshore:								
Jan-99	1,120,374.53	12,228,608.81	35,775.08	12,264,383.89			6	147
Feb-99	843,697.97	8,946,995.08	35,973.44	8,982,968.52			6	147
Mar-99	1,137,184.87	10,856,325.12	35,973.44	10,892,298.56				
Subtotal	3,101,257.37	32,031,929.01	107,721.96	32,139,650.97				
2nd QTR	**3,101,257.37**	**32,031,929.01**	**107,721.96**	**32,139,650.97**				
Onshore:								
Apr-99	0.00	0.00	0.00	0.00				
May-99	0.00	0.00	0.00	0.00				
Jun-99	0.00	0.00	0.00	0.00				
Subtotal	0.00	0.00	0.00	0.00				
Offshore:								
Apr-99	980,753.81	9,514,574.86	35,973.44	9,550,548.30				
May-99	1,004,408.35	10,866,181.84	35,973.44	10,902,155.28				
Jun-99	1,042,652.77	14,470,230.86	35,728.73	14,505,959.59				
Subtotal	3,027,814.93	34,850,987.56	107,675.61	34,958,663.17				
3rd QTR	**3,027,814.93**	**34,850,987.56**	**107,675.61**	**34,958,663.17**				

Onshore:				
Jul-99	0.00	0.00	0.00	0.00
Aug-99	0.00	0.00	0.00	0.00
Sep-99	0.00	0.00	0.00	0.00
Subtotal	0.00	0.00	0.00	0.00
Offshore:				
Jul-99	1,148,082.52	17,112,263.67	35,728.73	17,147,992.40
Aug-99	0.00	0.00	0.00	0.00
Sep-99	0.00	0.00	0.00	0.00
Subtotal	1,148,082.52	17,112,263.67	35,728.73	17,147,992.40
4th QTR	**1,148,082.52**	**17,112,263.67**	**35,728.73**	**17,147,992.40**
Total Onshore	**0.00**	**0.00**	**0.00**	**0.00**
Total Offshore	**10,491,134.98**	**121,808,039.29**	**335,201.76**	**122,143,241.05**
FY 1999 Total	**10,491,134.98**	**121,808,039.29**	**335,201.76**	**122,143,241.05**

Contract	yymm	Bill	Billed BELs	Billed Amt	Prebill	PB Qty	PB Amt	Bill Qty -PB	Bill Amt - PB Amt	Correct Diff
94102	9810	1098	178,177.23	2,102,455.89	1098	178,177.23	2,101,596.47	0.00	859.42	
94102	9811	11980006	196,645.53	2,648,104.20	11980006	196,645.53	2,628,475.30	0.00	19,628.90	
94102	9812	12980005	227,418.02	3,121,493.50	12980005	227,468.18	2,984,977.39	-50.16	136,516.11	ok line added
94102	9901	1990007	237,737.70	2,860,676.48	1990007	237,737.70	2,770,419.00	0.00	90,257.48	
94102	9902	2990006	234,483.20	2,390,193.75	2990006	234,483.20	2,409,524.70	0.00	-19,330.95	
94102	9903	3990006	230,811.90	2,578,334.95	3990006	230,811.90	2,473,691.42	0.00	104,643.53	
94102	9904	4990006	204,045.59	2,244,260.27	4990006	204,045.59	2,097,013.68	0.00	147,246.59	
94102	9905	5990005	212,785.89	2,787,906.75	5990005	212,785.89	2,572,639.67	0.00	215,267.08	
94102	9906	6990006	170,893.54	2,617,098.68	6990006	170,893.54	2,392,598.78	0.00	224,499.90	
Contract Total 94102			**1,892,998.60**	**23,350,524.47**		**1,893,048.76**	**22,430,936.41**		**919,588.08**	
			0.2046	**0.2288**		**0.2046**	**0.2046**		**0.2046**	
94104	9810	1098	136,077.34	1,606,053.99	1098	136,077.34	1,459,170.91	0.00	146,883.08	
94104	9811	11980002	153,091.46	1,964,628.02	11980002	153,091.46	1,850,795.85	0.00	113,832.17	
94104	9812	12980002	148,281.21	2,009,390.03	12980002	148,281.21	1,870,783.88	0.00	138,606.15	
94104	9901	1990003	146,271.42	1,753,923.16	1990003	146,271.42	1,652,335.67	0.00	101,587.49	
94104	9902	2990002	152,532.19	1,541,862.79	2990002	152,532.19	1,501,021.88	0.00	40,840.91	
94104	9903	3990002	159,177.17	1,705,686.32	3990002	159,177.17	1,593,225.63	0.00	112,460.69	
94104	9904	4990003	139,480.13	1,499,821.42	4990003	139,480.13	1,383,618.54	0.00	116,202.88	
94104	9905	5990002	146,133.05	1,803,286.01	5990002	146,133.05	1,676,871.86	0.00	126,414.15	
94104	9906	6990002	160,968.65	2,358,563.05	6990002	160,968.65	2,211,731.56	0.00	146,831.49	
Contract Total 94104			**1,342,012.62**	**16,243,214.79**		**1,342,012.62**	**15,199,555.78**		**1,043,659.01**	
			0.1450	**0.1592**		**0.1450**	**0.1450**		**0.1450**	
94106	9810	1098	52,270.57	610,067.82	1098	52,270.57	639,744.25	0.00	-29,676.43	
94106	9811	11980007	85,309.91	1,022,650.70	11980007	85,309.91	1,013,948.14	0.00	8,702.56	
94106	9812	12980006	58,858.63	805,608.53	12980006	58,858.63	811,916.59	0.00	-6,308.06	
94106	9901	1990008	79,874.98	877,566.13	1990008	79,874.98	959,035.05	0.00	-81,468.92	
94106	9902	2990007	51,006.25	504,005.60	2990007	51,006.25	556,285.39	0.00	-52,279.79	
94106	9903	3990007	99,701.61	946,143.67	3990007	99,701.61	1,008,884.44	0.00	-62,740.77	
94106	9904	4990002	60,941.55	776,048.20	4990002	60,682.13	622,578.35	259.42	153,469.85	ok line added
94106	9905	5990006	72,260.78	941,055.50	5990006	72,708.17	803,064.10	-447.39	137,991.40	ok line added

Contract	yymm	Bill	Billed BBLs	Billed Amt	Prebill	PB Qty	PB Amt	Bill Qty - PB	Bill Amt - PB Amt	Correct Diff
94106	9906	6990007	42,507.49	666,017.14	6990007	42,507.49	614,597.57	0.00	51,419.57	
Contract Total			602,731.77	7,149,163.29		602,919.74	7,030,053.88		119,109.41	
94106			0.0651	0.0701		0.0652	0.0712		0.0364	
94107	9810	1098	184,113.29	2,200,878.11	1098	184,113.29	2,250,792.81	0.00	-49,914.70	
94107	9811	11980009	194,610.99	2,566,000.16	11980009	194,610.99	2,504,516.00	0.00	61,484.16	
94107	9812	12980008	175,086.61	2,408,205.25	12980008	175,086.61	2,389,617.61	0.00	18,587.64	
94107	9901	1990010	231,890.90	2,728,709.56	1990010	231,890.90	2,844,132.86	0.00	-115,423.30	
94107	9902	2990009	165,543.08	1,556,741.74	2990009	165,543.08	1,594,178.70	0.00	-37,436.96	
94107	9903	3990009	248,289.96	2,722,443.79	3990009	248,289.96	2,647,372.93	0.00	75,070.86	
94107	9904	4990008	208,069.00	2,262,476.32	4990008	208,069.00	2,156,550.00	0.00	105,926.32	
94107	9905	5990008	214,349.38	2,739,612.09	5990008	214,349.38	2,521,971.48	0.00	217,640.61	
94107	9906	6990009	261,178.09	3,851,308.22	6990009	261,178.09	3,685,915.82	0.00	165,392.40	
Contract Total			1,883,131.30	23,036,375.24		1,883,131.30	22,595,048.21		441,327.03	
94107			0.2035	0.2257		0.2035	0.2287		0.1350	
94112	9810	1098	163,957.37	1,955,127.67	1098	163,957.37	1,825,339.64	0.00	129,788.03	
94112	9811	11980011	222,199.03	2,866,933.21	11980011	222,199.03	2,728,874.50	0.00	138,058.71	
94112	9812	12980010	163,898.11	2,255,744.51	12980010	163,898.11	2,172,136.83	0.00	83,607.68	
94112	9901	1990013	213,491.33	2,508,144.65	1990013	213,491.33	2,585,095.82	0.00	-76,951.17	
94112	9902	2990011	192,919.26	1,873,260.06	2990011	192,919.26	1,701,427.04	0.00	171,833.02	
94112	9903	3990010	215,877.09	2,316,698.26	3990010	215,877.09	2,191,072.44	0.00	125,625.82	
94112	9904	4990010	173,502.94	1,856,880.26	4990010	173,927.92	1,695,761.62	-424.98	161,118.64	ok line added
94112	9905	5990010	241,692.30	2,994,634.28	5990010	241,692.30	2,758,540.53	0.00	236,093.75	
94112	9906	6990011	232,571.81	3,632,237.03	6990011	232,571.81	3,284,116.57	0.00	348,120.46	
Contract Total			1,820,109.24	22,259,659.93		1,820,534.22	20,942,364.99		1,317,294.94	
94112			0.1967	0.2181		0.1967	0.2120		0.4028	
94114	9810	1098	165,627.56	1,050,851.70	1098	165,627.56	1,050,851.70	0.00	0.00	
94114	9811	11980018	194,206.86	1,391,623.66	11980018	194,206.86	1,391,623.66	0.00	0.00	
94114	9812	12980017	193,125.56	1,451,169.21	12980017	193,125.56	1,435,657.75	0.00	15,511.46	

Contract	yymm	Bill	Billed BBLs	Billed Amt	Prebill	PB Qty	PB Amt	Bill Qty -PB	Bill Amt - PB Amt	Correct Diff
94114	9901	1990021	202,710.91	1,456,664.82	1990021	202,710.91	1,285,104.92	0.00	171,559.90	
94114	9902	2990018	214,517.68	1,261,820.01	2990018	214,517.68	1,039,602.74	0.00	222,217.27	
94114	9903	3990017	202,457.35	800,177.25	3990017	202,457.35	943,141.08	0.00	-142,963.83	
94114	9904	4990017	184,242.22	820,731.50	4990017	184,242.22	822,804.27	0.00	-2,072.77	
94114	9905	5990017	199,734.39	833,946.45	5990017	199,734.39	1,243,855.58	0.00	-409,909.13	
94114	9906	6990018	155,969.39	942,061.70	6990018	155,969.39	1,367,382.92	0.00	-425,321.22	
Contract Total			1,712,591.92	10,009,046.30		1,712,591.92	10,580,024.62		-570,978.32	
94114			0.1851	0.0981		0.1851	0.1071		-0.1746	
Totals			9,253,575.45	102,047,984.02		9,254,238.56	98,777,983.89	-663.11	3,270,000.13	
			BillBBL/total	BillAmt/Total		PbQty/total	PBAmt/total		Diff/total	
94102			0.2046	0.2288		0.2046	0.2046		0.2046	
94104			0.1450	0.1592		0.1450	0.1450		0.1450	
94106			0.0651	0.0701		0.0652	0.0712		0.0364	
94107			0.2035	0.2257		0.2035	0.2287		0.1350	
94112			0.1967	0.2181		0.1967	0.2120		0.4028	
94114			0.1851	0.0981		0.1851	0.1071		-0.1746	

Update on RIK Pilots

Wyoming Oil Pilot

- We are selling crude oil at the lease in the second of two 6-month terms. We are evaluating the revenue results and conducting the final volume reconciliation's for the first 6-month term--no results yet.

- We are also getting ready to start a second phase of the Wyoming Pilot in which we will test a marketing agent approach to selling royalty volumes, rather than just a plain vanilla auction of royalty volumes at the lease. This will test whether MMS can realize any revenue gains from downstream sales.

- Also, discussions are underway between DOE, GSA, MMS, and several producers, to store Federal gas in Teapot Dome during the summer and fall months, and then sell it during the higher-priced winter months. The Wyoming Governor has supported this project in a letter to the MMS Director

Texas 8(g) Pilot

- This pilot is split into two sub-projects:
    a. General Service Administration (GSA)/MMS. Currently, gas from nine leases is being taken in kind, transferred to GSA, whose agent is selling the gas either on the spot market or to Federal agencies for utility savings. To date, revenue results have been marginally positive compared to estimates of in value proceeds.
    b. General Land Office (GLO)/MMS. Starting June 1, a large volume of gas from 5 Matagorda Island leases (including the 2nd largest gas producer in the GOM) will be taken in- kind, transported to the Matagorda Gas Plant tailgate area by the operator, and sold by our new MMS/GLO Austin office by competitive bidding during bid week. Monthly sales are expected. This will test in-kind from large producers with large volume swings and will be the first time we have directed the operator to move gas onshore for us.

Strategic Petroleum Reserve (SPR) Pilot

- **This pilot is divided into two phases:**
    a. **Phase 1** is underway with deliveries of crude being made to DOE under negotiated agreements for a 3-month period
    b. **Phase 2** will start immediately after the first phase and will follow an auction process in which companies will bid to take the royalty stream at the lease and deliver a percentage of the stream to DOE at or near the SPR facilities. The companies bidding the highest percentage of oil to be delivered to DOE will be the successful bidders.

GOM Pilot

- Planning is underway for a limited October start-up

Updated 5/14/99